LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6012
BILL NUMBER: HB 1086

DATE PREPARED: Oct 12, 2001
BILL AMENDED:

SUBJECT: TRF Military Service Credit.

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FUNDS AFFECTED: <u>X</u> **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

<u>Summary of Legislation:</u> This bill provides for Indiana State Teachers' Retirement Fund (TRF) service credit for military service performed before teacher training and service.

<u>Effective Date:</u> July 1, 2002.

<u>Explanation of State Expenditures:</u> *Summary:* The estimated impact of granting military service credit based on survey results of 2.5 years of service for retirees and 3.1 years for actives is: 1) an increase in unfunded accrued liabilities of $40.7 M; 2) an increase in payout of $2.1 M for the Closed Plan over the first two years. The fund affected is the State General Fund.

The exposure to the state of the maximum six years of military service credit (which assumes all members with military service credit would receive all six years) is: 1) an increase in unfunded accrued liabilities of $83.7 M; 2) and an increase in payout of $5.3 M for the Closed Plan over the first two years.

Background Information:

Impact for TRF Retirees: The TRF surveyed 30,000 TRF retirees, with 4,000 responding. The average teaching service of those who responded was 30.7 years, with the average military service amounting to 2.5 years. The average age of the respondents was 71.9 years and the average current pension was $11,184. The average increase in unfunded accrued liabilities would total $11.0 M if an average of 2.5 years of military service were granted. The increase in payout for the first year would be $1.1 M and $1.0 M in the second year.

The average increase in pensions if the maximum six years of military service were granted would be 7.8% and the increase in unfunded accrued liabilities would total $26.3 M. The increase in payout for the first year would be $2.7 M and $2.6 M in the second year. The fund affected is the State General Fund for the Pre-1996 Plan (Closed Plan).

Impact for Active TRF Members: The survey for active members of the TRF was sent to 84,000 active teachers, with 400 respondents. The average teaching service of those who responded was 23.1 years, with the average military service amounting to 3.1 years. The average age of the respondents was 53.6 years and the average current salary of those who responded was $53,765. If the average of 3.1 years of military service were granted, there would be an increase in the unfunded accrued liabilities of $27.8 M.

If the maximum six years of military service were granted, there would be an increase in the unfunded accrued liabilities of $53.7 M.

Below is a table that shows the estimated costs of granting military service credit based on the above-mentioned surveys (i.e., 2.5 years for retirees and 3.1 years for active members).

	Closed Plan	New Plan
Increase in Unfunded Accrued Liabilities	(in millions)	
Actives	$27.8	$1.9
Retirees	$11.0	$0.0
Total	$38.8	$1.9
Increase amortized over 40 years % of payroll	0.07%	0.01%
Increase in State Payout for current retirees:		
First Year	$1.1	
Second Year	$1.0	

Below is a table that recaps the estimated costs of granting the maximum six years of military service to actives and retirees. This represents the maximum exposure to the state of this proposal.

	Closed Plan	New Plan
Increase in Unfunded Accrued Liabilities:	(in millions)	
Actives	$53.7	$3.7
Retirees	$26.3	0.0
Total	$80.0	$3.7
Increase amortized over 40 years % of payroll	0.14%	0.02%
Increase in State Payout for current retirees:		
First Year	$2.7	
Second Year	$2.6	

The fund affected is the State General Fund for the Pre-1996 Plan (Closed Plan).

Explanation of State Revenues:

Explanation of Local Expenditures: See table above for the estimated increase in payroll costs of 0.01% for the New Plan (based on survey results). It is possible that there might be members of the 1996 Fund (New Plan) who would be eligible to retire with an increased benefit because of the provisions of this bill. The impact will depend upon the number of individuals who would be eligible for the benefit. For local school corporations, it could increase the percent of payroll required to fund the new benefit. The current cost of payroll is 9%.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: School Corporations.

Information Sources: Denise Jones of Gabriel Roeder Smith & Co., actuaries for the Teachers' Retirement Fund, 1-800-521-0498.

DEFINITIONS

Unfunded Accrued Liability The unfunded accrued liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Funding - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Amortization - A straight-line reduction of debt by means of periodic payments sufficient to meet current interest and liquidate the debt at maturity.